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BY ELECTRONIC FILING

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

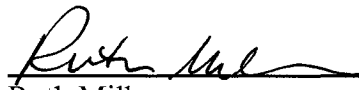
Re: *Ex Parte Presentation*
In the Matter of Review of the Section 251 Unbundling
Obligations of Incumbent Local Exchange Carriers,
CC Docket Nos. 01-338, 96-98, 98-147

Dear Ms. Dortch:

On November 1, 2002, Donna Sorgi, WorldCom, Inc., e-mailed the attached article from today's issue of the Washington Post, Tech News section, to Christopher Libertelli.

Pursuant to section 1.1206(b)(2) of the Commission's rules, 47 C.F.R. § 1.1206(b)(2), this letter is being provided to you for inclusion in the public record of the above-referenced proceeding.

Sincerely,


Ruth Milkman

cc: Christopher Libertelli

washingtonpost.com

Revival of a Local Phone 'Reseller'

Talk America Is Growing, Profitable -- for Now

By Yuki Noguchi
Washington Post Staff Writer
Friday, November 1, 2002; Page E05

Talk America Inc. was one of the companies that investors left for dead 21/2 years ago.

The Reston-based company buys bulk telephone service at a discount from major phone companies, and then repackages and resells it to consumers at prices cheaper than the big companies can. When it began in May 2000, that was an unpopular idea among investors because Talk America was doing little more than reselling other carriers' service.

"A lot of people said at the time: 'It won't work,' " said Talk America's chairman and chief executive, Gabriel A. "Gabe" Battista.

But it *is* working, at least for now.

Talk America, which employs about 1,000 people, is one of two or three local telephone providers based in the Washington area, the remnants of a field that used to have about 20. The company has more than 270,000 customers in 25 states, and plans to post its fourth consecutive quarter of profitability next week. Bigger players have gotten into the same business, and copycat firms are cropping up all over the country, offering consumers a rebranded, repackaged alternatives to their main local phone provider.

With its stock price at a respectable \$7.93 a share, Talk America is now considering installing its own network equipment in markets where it has enough subscribers to justify the investment. Moreover, things appear to be looking up for the firm, because state regulators have been reducing the rates at which companies like Talk America can lease lines, making the business financially attractive in more markets.

Those are unexpected developments in Talk America's fate.

When the markets began to panic over the glut of telecoms in spring 2000, investors dismissed Talk America because it didn't own its own network, and instead leased its basic network infrastructure from Bell operating companies such as Verizon Communications Inc. and SBC Communications Inc. Even though the resellers lease those networks at 40 to 50 percent off the retail price, Wall Street shied away, fearing they would go out of business if regulators ever overturned those deep discounts.

But what has happened is that companies that spent billions to build their own networks are mostly in bankruptcy because they didn't have a customer base. Now, companies like Talk America are trying to get the customers first, then build the network.

"I think this is one of the biggest issues the industry faces, [because] as far as consumers go, this is *the* hope for choice," said Vik Grover, an analyst for Kaufman Brothers in New York. The Federal Communications Commission, which regulates competition in the telecommunications industry, helped accelerate the growth of resellers when, starting in 2000, it eliminated some fees and charges that reduced the wholesale lease rates by 20 to 40 percent, he said. That means firms like Talk America

could seriously poach the Bells' business, he said.

The Bells have mobilized on the lobbying front, trying to combat the loss of customers to resellers. The low whole rates are "destroying the industry," because they require the Bells to sell their services to their rivals at a loss, said Walter B. McCormick Jr., president and chief executive of the U.S. telecom Association in Washington, which is representing the Bells in lobbying the FCC to roll back the rules that force them to lease their network to competitors. In permitting resale, regulators "created parasites; they feed off of the host and weaken the host," McCormick said.

Meanwhile, more companies are jumping on Talk America's bandwagon. Giants such as AT&T Corp. and WorldCom Inc.'s MCI unit launched national marketing campaigns and are now the biggest resellers of leased local lines.

The number of resold local lines grew from 500,000 at the end of last year to an expected 5 million lines at the end of this year, according to Terry Barnich, president of research firm New Paradigm Resources Group in Chicago. The numbers grew because AT&T has stepped up its efforts to sell local service and MCI's "Neighborhood" program has successfully bundled local and long-distance service, Barnich noted. Access One Inc., based in Chicago, is one such newcomer trying to take advantage of that trend. It started selling local service, in addition to its long-distance resale service, to business customers in Illinois in August of last year.

The company, which offers service in four states, leases local lines at a 45 percent discount, and passes on about 10 percent of the discount to its customers. With marketing, billing and administrative costs, the company ends up with about a 3 percent profit margin, Access One chief executive Lance C. Honea said. The goal behind Access One, like many other similar companies, is not to piggy back on Ameritech and SBC's networks forever; eventually, the company will invest in building its own network, he said. "As you receive a concentration of customers, you invest in facilities so your margins are higher," but that doesn't make economic sense until after five years of being in a market, he said.

SBC is losing 12,000 customers to resellers like Access One every day, and that rate will ramp up to 29,000 a day by the end of next year, representing a loss of \$2.3 billion in annual revenue for SBC, said William M. Daley, SBC's president and former U.S. commerce secretary. The six states where wholesale rates are the cheapest -- Illinois, Michigan, Ohio, Wisconsin, Indiana and California -- are all in SBC's 13-state region, and the company is losing money because those rates don't sufficiently compensate SBC for what it costs to maintain the network, he said.

"This was intended to jump-start new competition to get into the phone business, but I don't think anyone expected it to benefit WorldCom and AT&T," which don't bear any investment risk, he said. "The others can just cherry-pick."

The FCC is not unsympathetic to this concern. It is likely to issue a decision late this year or early next year that will set guidelines for such a phaseout, according to some analysts. But the FCC only controls part of the resale equation: Rivals like Talk America say they have allies in an increasing number of state utility commissions, which are not only upholding the wholesale requirement of the Bell companies, but reducing the rates at which they must sell to rivals.

Resale "is not going away," Kaufman's Grover said. The state commissions are sympathetic to the resellers, because they see consumer prices for telephone services dropping for the first time, he said. If the FCC limits resale, it is likely to limit only the business market, not the consumer market, he said. "Deregulation is supposed to be good for consumers," and so far, resale is the only line of business that

has been since the local telephone markets were deregulated in 1996, he said.

Because the FCC's decision on resale rules is likely to get tangled up in court battles, the resale business will remain volatile, said Blair Levin, an analyst at Legg Mason Wood Walker Inc. Ultimately, the FCC is likeliest to curtail some of the rules requiring the Bell operating companies to resell their lines, but it is also likely that states will try to continue the significant discounts for resellers, he said. For Talk America, business is just starting to become "fun," said Battista, the Talk America chief executive. The company struggled to get its local business off the ground, and had to invest \$50 million to develop a new computer system that could handle all the complexities of billing, provisioning, credit checks and customer service, he said. Last month, the company also spent \$15 million to retire some of its debt to make the company financially healthier, he said.

But now that companies are starting to emulate their business, Battista feels vindicated.

"We're showing the world they're wrong, and we're having fun," he said. "Sometimes you set out on a vision and you're wrong, and sometimes you set out on a business and it turns out."

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